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Weekly Contributions  
Latin America Division, ORE, CIA  
21 March 1950

Of the items reported on this week, D/LA finds two of particular interest, that on the report of the OAS investigating committee (p. 2) and that on the weak Bolivian government's suppression of a revolutionary attempt (p. 4).

**CURRENT DEVELOPMENTS**

**GENERAL:** The OAS investigation of the Caribbean situation may be expected to curtail future hostile activities in that area (p. 2). The planned pro-Communist CTAL meeting in Montevideo has, thus far, poor prospects for success (p. 2). Both Peru and Colombia appear to be delaying proceedings on the Haya case (p. 2).

**NORTHERN AREA:** Should Honduras' President Gálvez leave the country temporarily, as is expected, his absence will have a somewhat unsettling effect (p. 3). In Guatemala, anti-US agitation will increase as the result of the acceptance by Colonel Arbenz of leftist political support (p. 3). In Guatemala, cabinet members have resigned to force the president to make clear his political position (p. 3).

**CENTRAL AREA:** In Brazil, the cabinet shakeup expected within the next two weeks is not likely to affect stability or US interests in that country (p. 4). Ecuador's government is subject to increasing pressure from the International Monetary Fund to devalue its currency (p. 4).

**SOUTHERN AREA:** Bolivia's weak government again has been threatened with revolution (p. 4). Bolivia is not expected to press its suggestion that a "Miller Plan" for economic aid be formulated in the US (p. 5). In Argentina, rumors of a large US loan have created a delicate situation (p. 5).

**SPECIAL SUBJECTS**

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1. GENERAL: OAS Investigation of the Caribbean Situation

The far-reaching and complex factors contributing to Caribbean unrest have now been brought formally to the attention of the American Republics by the report and recommendations of the OAS investigating committee, which has recently finished its study of the situation in that area. Of the four countries involved in the controversies which gave rise to the investigation (Cuba, Dominican Republic, Guatemala, and Haiti), the first three were found culpable.

If, as is expected, the committee's recommendations will receive approval and implementation by the Council of the OAS, they will make a further contribution toward restoring tranquility to the Caribbean. Although ill feeling still exists in the area -- the Dominican Republic, for example, has reportedly threatened to break relations with Cuba -- the work of the committee has already alleviated tension. The committee's frank report (which has been made public) recommending further study of the complex factors underlying Caribbean unrest and the strengthening of existing inter-American machinery, should have a salutary effect on the countries concerned and give added prestige to the OAS and its instrumentalities. These recommendations, if adequately carried out, will probably curb future hostile activities on the part of the Caribbean countries presently involved, particularly in connection with revolutionary plots against their neighbors. (Substance in CIA Wkly, 17 Mar 50.)

2. Pro-Communist CTAL Meeting in Montevideo

Despite obstacles, the Communist backers of the Montevideo Congress of South American Trade Unions appear to be determined to go through with their plans for the meeting.

A serious obstacle faced by the pro-Communist CTAL organizers is opposition from the Uruguayan government, which is said to have issued instructions to its missions abroad not to grant visas to persons wishing to attend. Furthermore, the planned Congress has so far evoked but slight interest among Latin American trade unions.

Nevertheless, the meeting is now scheduled for 27-31 March, and, while it is possible that some prominent Communists may not be able to get to the meeting, it will still serve as a front for Hemisphere-wide secret Communist meetings, and a forum for anti-US propaganda.

3. Peru and Colombia; Delays in the Haya Case

Requests for delays in the Haya case, made by both Peruvians and Colombians, indicate that neither party is anxious to press proceedings before the International Court of Justice and may be willing to make some separate face-saving arrangement to

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obviate the necessity for a court decision. The present Colombian administration appears less eager to embarrass Peru, while Peru's domestic situation has changed so that a failure to press Peruvian claims would have a less dangerous effect on government stability. If Haya were allowed to go to Colombia by private agreement, tension between the two countries would be eased and the only unfavorable effect would be the implied slight to the International Court of Justice.

4. HONDURAS: President to Leave Country Temporarily

The brief period of uncertainty that ensued when President Gálvez recently asked for and received congressional permission to leave the country for medical treatment in the US is now dispelled. Rumors circulated to the effect that ex-president Carias would return to power when Vice President Lozano submitted his "irrevocable" resignation. The vice president, who is able but not popular, has withdrawn his resignation, and Gálvez will probably come to the US this summer. Although there is little organized opposition to the administration and the political situation is relatively untroubled, it is estimated that the president's absence will have a somewhat unsettling effect.

5. GUATEMALA: Anti-US Agitation

Anti-US agitation, which may become a threat to US interests in the country, will be aggravated further by the recent campaign alignment of Colonel Arbenz with leftist political parties and labor unions, by providing anti-US and pro-Communist agitators with a measure of protection during the forthcoming presidential campaign. (Substance in CIA Wkly, 17 Mar 50.)

6. Cabinet Resignations Test Arévalo's Political Sympathies

No domestic crisis is involved in the resignation of all but two of President Arévalo's cabinet ministers who resigned "in order to leave the president free to choose his collaborators during the final year of his term". During the current presidential campaign, extreme leftist administration parties are supporting the candidacy of Colonel Arbenz, whereas the moderate Frente Popular Libertador (FPL) has rejected Arbenz on the grounds that it is opposed to a military candidate. Arévalo is known to be opposed, in principle, to military leadership, but he has also depended strongly upon Arbenz for support. Because Arévalo's personal sympathies, if known, could exert a powerful influence over the electorate, D/LA estimates that this mass cabinet resignation may be an attempt, by moderates and extreme leftists alike, to force Arévalo into a position where he must display his political preferences in the current presidential campaign.

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7. BRAZIL: Cabinet Reshuffle Expected During Next Two Weeks  
Several cabinet ministers are expected to resign during the next two weeks in order to become eligible for election in the 3 October general elections. (A cabinet minister must resign six months prior to the election to be eligible as a presidential candidate and three months before the election to become an eligible candidate for a state governorship or for the federal legislature.) Although War Minister Canrobert appears to be the only cabinet minister expected to become a presidential candidate (D/LA Wkly, 28 Feb 50), those planning to become candidates for state governorships or for the federal legislature also are expected to resign during this period in order to permit President Dutra to appoint a new cabinet to serve out the present term. This expected cabinet shakeup is not likely to affect in any way either the political stability of Brazil or the US security interests in that country.
8. ECUADOR: Pressure for Devaluation Increases  
Ecuador's most recent foreign exchange legislation (D/LA Wkly, 17 Jan 50) has caused the International Monetary Fund to put mild pressure upon the government to revise its foreign exchange system with a view to devaluation. Instead of moving toward the abolition of multiple exchange rates (one of the Fund's basic objectives), this recent legislation increases the number of rates by applying multiple exchange rates to exports as well as to imports --- an action which was taken without prior consultation with the Fund. The reason behind the government's failure to consult with the Fund before adopting the new measures in December was its feeling that outright devaluation --- a course recommended by the Fund last fall --- would be politically dangerous for the administration. The Fund has indicated its disapproval of the government's measure and of the manner in which it was taken. The most extreme sanction available to the Fund is expulsion --- an action which would most seriously impair Ecuador's international credit position.  
D/LA estimates that President Plaza will yield to Fund pressure for devaluation and a uniform exchange rate to the fullest extent consistent with the security of his domestic political position. In view of the likelihood that Plaza will be able to offer some measure of cooperation, and, in view of the now-almost-traditional Fund policy of leniency and compromise, D/LA further estimates that no drastic action will be taken by the Fund against Ecuador.
9. BOLIVIA: Government Discovers MNR-PIR Plot  
Persistent plotting by the rightist National Revolutionary Movement (MNR) and other groups, including active army officers, continues to threaten the survival of the present government. The

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government has announced the discovery of a plot by the MNR, PIR, and retired army officers to stage a coup during a threatened general strike. A general strike has been considered a possibility for some time because of frequent reports that the MNR and PIR have been attempting to incite mine and factory workers against the government and because of the general discontent throughout the country (D/LA Wkly, 28 Feb 50). Despite the possibility that the MNR may ultimately gain sufficient support either from the army or from the PIR to stage a successful revolution, D/LA estimates that, for the present at least, the government of Bolivia may maintain its very precarious tenure.

10.

"Miller Plan" Proposed for Latin America

The Bolivian government recently proposed that the US formulate a "Miller Plan" as a Latin-American counterpart to ERP. This suggestion, which was prompted by the desire for financial aid to check further deterioration in Bolivia's difficult economic situation, reflects the general belief by Bolivian leaders that the needs of Latin America, as well as those of Europe, justify a plan for US economic aid (D/LA Wkly, 28 Feb 50). It is not expected, however, that the Bolivians will press this proposal further at this time.

11. ARGENTINA: Rumors of a US Loan

Mounting rumors in Argentine business circles of an impending large US loan (\$600 million) to Argentina coincident with the visit to Washington by Señor Ramon Cereijo, President of the National Economic Council, has created a delicate situation regarding future US-Argentine relations. Despite continued official denials of any interest in a US loan and despite the government's failure thus far adequately to meet US suggestions for improvement, Argentine optimism concerning prospects for improved US-Argentine relations has increased and been widely publicized, especially as regards Asst. Secretary Miller's visit to Argentina (D/LA Wkly, 28 Feb 50) and the visit to Washington by Sr. Cereijo. It is true that, should the results of discussions with the US not be satisfactory, and if the economic situation does not improve, Argentina is prepared to launch a vigorous anti-US campaign, the groundwork for which already has been laid by the congressional "anti-Argentine activities" committee (D/LA Wkly, 17 Jan 50). As the situation now stands, however, the Perón administration continues to make overtures directed toward the accomplishment of improved economic relations with the US.

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The Current Situation in Chile

(Summary --- The recent realignment of political parties in the cabinet does not seriously affect the basic stability of the government. The economic situation continues to be the most pressing problem facing the government. The armed forces remained loyal to the government during the recent strikes and are expected to support the new cabinet. The Communists appear temporarily to have abandoned their technique of exploiting favorable opportunities to create trouble. Chile's international relations remain cordial in general.

--- Recent changes have not significantly affected US security interests.)

Political

The realignment of political parties in the new coalition cabinet (D/LA Wkly, 7 Mar 50) does not seriously affect the basic stability of the Chilean government, but will probably alter government policy and reduce the power and prestige of the President. The new coalition appears to enjoy wide popular support, especially from the politically important white-collar unions that exerted great pressure to effect the cabinet changes. In Congress, however, the balance of power is so delicate that the coalition will be forced to rely on the support of opposition groups to enact the legislation it desires. It appears likely that the new coalition will continue the former government's industrialization program and will try to implement a broader social plan that will appeal to the white collar workers and at the same time will be acceptable to certain opposition groups in Congress. The coalition's success in this program will depend on its ability to work out an economic program that will be feasible as well as politically acceptable. According to present indications, the chances for this are very poor. Should the new coalition fail to meet the exigencies of the present situation, further political and labor disturbances would be certain to arise. The President, however, is likely to retain his post but may at least temporarily have to adopt a more leftist orientation and abandon his formerly successful technique of political extemporization in the face of crises.

Economic

Chile's unfavorable economic situation remains the most pressing problem facing the government. At the turn of the year economic gains were small compared with the over-all economic decline, and prospects

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for noticeable improvements in 1950 appeared dim. The significance of a small favorable trade balance was overshadowed by the considerable drop in volume and value of exports. The slight gain derived from the 2 cents per pound increase in the price of copper over that prevailing in mid-1949 was threatened by the possibility that the US might reimpose the 2 cents per pound import excise tax on copper. Plans for expansion of agricultural output at lower cost to the consumers have been jeopardized by serious drought conditions which may necessitate considerable foreign exchange outlays to make up expected deficits in food supplies. Inflation has had a disturbing effect on labor-management relations as well as on the population in general. The recent cabinet changes, which caused a realignment of political groups in congress, have reduced the chances for imminent legislative implementation of either the economic program agreed on in December or any comparable long-range plan. Although the general situation may be alleviated somewhat by the small benefits that will be derived from the new industries -- chiefly steel and petroleum -- as well as from projected bilateral agreements designed to conserve dollar exchange, the basic problems -- unfavorable exchange position, deficit spending, continued inflation, and the unfavorable position of copper -- are not likely to be resolved immediately.

#### Military

The armed forces remained loyal to the government during the recent wave of strikes and aided not only in preserving order but also in operating certain public utilities. The retention of General Barrios as Minister of Defense in the new cabinet is likely to satisfy the prestige of the military and assure their continued support. The removal of Admiral Holger as Minister of Interior appears to be a political move directed against the President rather than against the armed forces.

#### Subversive

The Communists did not participate to any great extent in the recent wave of strikes and appear to have abandoned -- at least temporarily -- their technique of exploiting favorable opportunities to create trouble. Instead, they now appear to be courting minority groups in Congress as well as certain parties in the new coalition in an effort to effect the repeal of repressive legislation, such as the Defense of Democracy Law. While some of the parties in the cabinet are rather friendly to the Communists, it does not appear that the total gain in Communist influence will be sufficient to make any radical change in the political situation.

#### International

While Chile's international relations remain cordial in general, most noteworthy is the continuing display of great friendship for

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Argentina. The new coalition government is expected to continue this trend and to be at the same time pro-US and anti-USSR, especially in the UN where Chile has played a leading role. A significant factor locally, and in US-Chilean relations as well, is the forthcoming visit of President González Videla to the US. Although the unsettled political situation in his country makes the timing of the visit somewhat inopportune for any campaign to gain tangible evidences of US friendship, the visit will nevertheless serve to renew traditional ties between the US and Chile and may help González Videla to regain some of his waning prestige.

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### The Current Situation in Venezuela

(Summary -- The military junta's control appears to be firmly established. The prospect of severe reductions in oil production, while creating an uneasy economic situation, contains no imminent threat to political stability. Communism has suffered minor setbacks, and has made no significant advances. The work of the US army mission is beginning to bear fruit. Venezuela has no major problems in its international relations.

-- Most unfavorable to US interests is the prospect of sharply curtailed oil production, which may deprive the US of a large part of one of its most important foreign markets.)

#### Political

The political situation continues calm, and the military junta appears to be more firmly established than at any time since the coup of November 1948. Reports concerning a rift within the triumvirate have declined. Although the threat of revolutionary activities by Accion Democratica exiles cannot be altogether discounted, such threat is no longer imminent.

Progress towards the reestablishment of some semblance of a constitutional regime will undoubtedly be slow, although the first steps in that direction have been taken. Municipal councils have been named (D/LA Wkly, 10 Jan 50); a first draft of the new electoral law is under discussion by the electoral commission. No date has been set for elections, which will probably not be held before late 1950.

Prospects for continued stability are good. The present petroleum crisis (see "Economic" below) will probably not have political repercussions of such magnitude as to endanger the government's stability.

#### Economic

The economic situation has become less favorable primarily because of the threatened restriction of oil imports by the US. Passage of restrictive legislation now before the US Congress might cause a reduction of exports to the US by as much as 250,000 barrels a day. Two steps have been taken to avert US restrictions: 1) the companies have agreed to reduce production by 100,000 barrels a day; 2) a mission of Venezuelan businessmen now in the US is attempting to gain support of US exporters to convince Congress of the danger to the US export market of contemplated restrictions.

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The principal effects of a reduction in petroleum production would be increasing unemployment, reduced government revenues (approximately 60% of which are derived from the petroleum industry), and curtailment of purchases from the US. Nevertheless, Venezuela's strong currency and the absence of external debt would partially offset the impact of reduced oil production. Although a continued petroleum crisis would probably necessitate exchange controls and re-employment projects, it is not likely that the stability of the government would be seriously endangered.

Negotiations between the oil workers' unions and the companies for revision of the labor contracts ended when the companies refused to revise wage scales upwards. The possibility is not great that an oil workers' strike will be attempted. The fact that the Communist federation, the Comité Sindical Unitario de Trabajadores Petroleros (Cosutrapet), represented only its own affiliated unions in the negotiations may be construed as a setback to the Communist campaign for syndical unity (D/LA Wkly, 31 Jan 50).

The strike of iron workers in the Iron Mines Company of Venezuela (a Bethlehem subsidiary) was ended when the junta decreed 17 February that the workers must return to their jobs by 22 February, and that both parties must submit to arbitration by a board of three, representing union, company, and government. The workers will probably gain their strike objective, a contract.

#### Subversive

Communism in Venezuela has made no marked advances, and has sustained a number of minor setbacks during the past three months. The Communist-AD coalition "Frente Democrática", which is trying to gain control of cultural groups, failed to get candidates elected as officers of the Asociación de Escritores Venezolanos. Slight indications of firmer government policy are seen in the absence of Communist representation on the municipal councils and in the denial of permission to the Instituto Cultural Venezolano-Soviético to establish branches outside the Federal District. Although the present petroleum crisis creates a climate favorable to Communist propaganda, there is no evidence of a diminution of the government's ability to deal with any labor disturbances which might result from Communist agitation.

#### Military

The Venezuelan army continues to be loyal to the government. Factional cleavages are ill-defined and submerged. The position of the junta has been strengthened by the circumstances attending the arrest in December of Lt. Col. Roberto Casanova (D/LA Wkly, 13 Dec 49).

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The increasing influence of the US army mission has been demonstrated in the following ways. 1) The mission's program for recruit training, limited last year to the Caracas area, is now being carried out throughout the country. 2) The present airborne training program for 122 men and 7 officers is nearing completion with the departure (23 January) of the remaining 40 enlisted men to attend the basic airborne course at Ft. Benning. This program has particular value for defense against internal disorders and sabotage. 3) The office of the Inspector General of the Armed Forces will probably be abolished and a G-3 section of the General Staff set up as recommended by the US mission.

Four De Havilland jet "Vampire" fighters ordered from Great Britain have arrived, and have been received with enthusiasm by the air force. The government is believed to be considering additional purchases of 22 of these planes, which are easy to operate and considerably less expensive than their US counterpart.

#### International

The status of Venezuela's international relations continues favorable. In the council of the Organization of American States, Venezuela supported the invocation of the Rio Treaty in the dispute between Haiti and the Dominican Republic. Venezuela's prompt recognition of the Arias regime in Panama, motivated partially by the hope that Arias would suppress the activities of AD exiles, was rewarded by the cessation of AD broadcasts from Radio Balboa. No decision has as yet been reached regarding ratification of the charter of the OAS. Venezuela recognized the United States of Indonesia and the Republic of South Korea 3 March, and Vietnam, Laos, and Cambodia 10 March. In matters pertaining to the East-West struggle, Venezuela will continue to support the US.

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